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Executive Secretary

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THE WHITE HOUSE
WASHINGTON

July 17, 1985

NOTE FOR WILLIAM J. CASEY

FROM: ROGER B. PORTER RBP

The agenda and papers for the July 19 Meeting of the Economic Policy Council are attached.

EPC / mtg

Executive Registry

85- 2750

THE WHITE HOUSE

WASHINGTON

July 17, 1985

19 Jul 85

Section 301 Citrus
Multifiber

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: ROGER B. PORTER RBP

SUBJECT: Agenda and Papers for the July 19 Meeting

The agenda and papers for the July 19 meeting of the Economic Policy Council are attached. The meeting is scheduled for 3:00 p.m. in the Roosevelt Room.

The first agenda item concerns the Section 301 citrus petition. Following the President's decision to respond to European Community discrimination against U.S. citrus exports, Ambassador Yeutter has held extensive discussions with his European Community counterparts to seek a successful resolution. Ambassador Yeutter will report on his discussions and his implementation of the President's decision.

The second agenda item concerns the Multifiber Arrangement (MFA) negotiations. The Council will review the issue of U.S. support for extension, modification, or expiration of the MFA. The GATT Textiles Committee will meet on July 23 in Geneva to discuss whether the MFA should be allowed to expire or negotiations for an extension or modified MFA should begin. A paper, prepared by the chairman of the EPC Working Group on the Multifiber Arrangement, reviewing this issue is attached.

The third agenda item concerns the Common Fund. The Council considered at its July 2 meeting whether the U.S. should ratify the Common Fund Agreement, which would facilitate the financing of commodity price stabilization agreements. The Council will review this issue again. The paper, prepared by the Department of the Treasury on this issue, originally circulated for the July 2 meeting, is also attached.

Attachments

THE WHITE HOUSE

WASHINGTON

ECONOMIC POLICY COUNCIL

July 19, 1985

3:00 p.m.

Roosevelt Room

AGENDA

1. Implementation of the President's Section 301 Citrus Decision

2. Multifiber Arrangement Negotiations

3. ~~The Common Fund~~

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OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

July 11, 1985

MEMORANDUM

TO: Roger B. Porter
Executive Secretary, Economic Policy Council

FROM: Ambassador Richard H. Imus

SUBJECT: Economic Policy Council Working Group on the Multifiber Arrangement

In response to your memorandum of July 5, I am attaching the options paper you requested. The paper was discussed with members of the Working Group on the MFA and all support Option C. Ambassador Yeutter has also read and cleared this paper.

Attachment

OPTIONS PAPER FOR MEMBERS OF THE ECONOMIC POLICY COUNCIL

FROM: AMBASSADOR RICHARD H. IMUS, CHAIRMAN
ECONOMIC POLICY GROUP ON THE MULTIFIBER ARRANGEMENT

Issue For Decision

Should the U.S. support extension, modification or expiration of the Multifiber Arrangement at the July 23, 1985 meeting of the GATT Textiles Committee.

I. Background

The Issue

The current Multifiber Agreement (MFA III) expires on July 31, 1986. The MFA provides that one year prior to the expiration participants shall meet to decide whether the MFA should be "extended, modified, or discontinued." A meeting of the GATT Textile Committee has therefore been called for July 23, 1985. It is important to note that this meeting is not for the purpose of negotiating a new MFA but to determine, whether the MFA should be allowed to expire next year or whether negotiations for extension or modification should begin. In the latter case, negotiations will begin this fall.

Country Attitudes

a) Exporters. Officially, the developing countries (textile apparel exporters) have called for termination of the MFA and return of textile and apparel trade to the general procedures of the GATT. Privately, some LDC exporters have told us that they would favor continuation of the MFA, providing it did not overly restrict their export opportunities. In short, the exporters are divided.

b) European Community. Slow economic growth and weak currencies have held down European imports during this MFA. The Community seems satisfied that the present MFA and its bilateral agreements are sufficient. Therefore, the EC basically favors an extension of the present arrangement probably with liberalization. Imports are again growing in Europe, however, and in time we may see the EEC more concerned about this issue than they are now.

c) Canada. The Canadians have experienced the same import surges as we. They, therefore, will press for a tighter MFA to give them more authority to take more restrictive action in the future.

d) Japan. Japan is a member of the MFA but imposes no formal import restraints. Problems are growing, however, with imports from China, Korea, and Pakistan. Japan will probably follow our lead but will not be of much real support in the negotiating process.

II. Options

(A) Allow the MFA to expire and return textiles to the normal GATT system.

Pros

1) Would please the LDCs and contribute to a more favorable atmosphere for the new round negotiations.

2) Would be a strong statement by the Administration for more open trade.

Cons

1) The Administration would take enormous criticism domestically.

2) We would give impetus to the textile/apparel quota bill.

3) To continue any level of protection for the domestic industry we would have to use normal procedures of GATT Article 19. This is a more complex and difficult process.

(B) Extend the present MFA

Pros

1) This would be the easiest course to accomplish. It would put us and the EC together. Most LDC's, while unhappy with the present MFA, could live with it.

2) The trade knows this system and can live with it.

3) The present MFA is vague enough to allow us to negotiate quite stringent agreements should we decide upon that course.

Cons

1) Domestic industry feels the present MFA offers inadequate protection. They would strongly oppose a simple extension.

2) The present system has been a constant source of bilateral conflict. This would continue.

(C) Modify the MFA

Pros

1) We may be able by careful balancing to deal with the concerns of our own industry and some of those of the LDCs.

2) The present MFA and its predecessor agreements have continued essentially unchanged for over 20 years. The terms and conditions of the MFA thus reflect the patterns of world trade of the past not the present.

3) Would provide strong leverage in the Administration's opposition to protectionist legislative proposals.

4) Would provide an opportunity to close some of the loopholes of the present Arrangement.

Cons

1) Everyone wants their own changes to the MFA. Once we start the process of revision the negotiations will be long and arduous. There is a real possibility no agreement will be reached.

2) Revision could well mean a more protectionist position for the U.S. than present MFA (though less protectionist than present legislative proposals). We could, therefore jeopardize the New Round and other trade liberalizing efforts.

Recommendation

The EPC Working Group unanimously agrees that Option C is the course for the U.S. to pursue. While we need some additional time to develop specific recommendations for the actual negotiations in the fall, we should go on record in Geneva on July 23

--- calling for a new MFA to replace the existing accord

--- stating the problems our industry has faced under the present Arrangement.

--- calling upon our trading partners to cooperate in solving these problems.

--- assuring exporting nations that we will be willing to negotiate issues with which they are concerned.

Given the urgency of this issue we will work toward convening formal negotiations this fall. We will also try to convince our trading partners that it is in everyone's interest to handle the negotiations expeditiously.

Following the July 23 meeting, the EPC Working Group will complete its present analysis of basic facts and develop policy options for presentation to the EPC shortly after Labor Day.

COMMON FUND

Issue

Should the United States ratify the Common Fund?

It is time for the United States to make a definitive decision on the Common Fund and put the issue behind us. The issue is coming to the fore because of diplomatic pressure on the United States to ratify. The pressure is occasioned by the fact that ratifications have reached the point where U.S. ratification (and expected ratifications following our lead) would be sufficient to bring the Common Fund into force. However, to ratify, the United States would have to jettison a precondition we have insisted on for the last four years and to overcome philosophical aversion and practical doubts about the Common Fund.

U. S. position

The U.S. position has been that we would consider taking steps to ratify the Common Fund Agreement when several eligible commodity agreements are prepared to associate with the Common Fund. This consistent U.S. position is based on the premise that the Common Fund makes no sense without commodity agreements able to associate with it. The United States has declined to pledge resources to the Second Window of the Fund, and our position is not affected by arguments that the Second Window should be allowed to operate even if the First Window never does. The United States has also rejected the notion that we should ratify because other countries have.

Provisions of the Common Fund

The ideas motivating the Common Fund are that price-stabilizing commodity agreements are desirable and that commodity organizations can borrow more cheaply as a group (from one another and commercially) than as individual entities.

The Common Fund's intent then is to facilitate the financing of price-stabilizing buffer stock agreements and to help mobilize funding of "other measures" to improve the market position of commodities. To this end, the Common Fund's First Window is designed to lend money to the buffer-stock operations of associated commodity agreements. The source of the funds would be pooled assets of associated agreements and funds borrowed commercially.

The Fund's Second Window would finance commodity projects aimed at improving structural conditions in commodity markets and at enhancing the competitiveness of commodities.

Entry-into-force requires ratification by 90 countries accounting for two-thirds of $470 million of direct contributions (to be used as collateral to secure commercial borrowing), and 50 percent of $280 million of voluntary contributions to the Second Window.

Current situation

As of the end of June, 85 countries had ratified the Common Fund accounting for 51 percent of direct contributions. The Second Window requirement for entry into force has already been met. The last deadline for entry into force was January 1, 1984; this deadline was not met but it has been extended *de facto*.

The United States has a 15.7 percent share of direct contributions. Ratification by the United States would complete the two-thirds threshold and sufficient ratifications to reach the required 90 would follow in the wake of U.S. ratification. West Germany is expected to announce its ratification soon. Among other major countries, only the Soviet Union has not ratified; it *may* do so soon; if other communist countries also ratify, the Common Fund could enter into force without the United States.

Meanwhile, contentious issues over voting and rules for Second Window financing are in abeyance until it is known whether the Fund will enter into force. The voting question revolves around LDCs' insistence that their bloc have effective voting control of the organization under all circumstances. This would require further decoupling of financial contributions from votes, a highly undesirable feature in a financial institution.

History

The idea of a common fund has been a major feature of international discussion since about 1974. At that time the UNCTAD Secretariat elaborated a common fund proposal, opened it for international discussion, and promoted it. Developed countries showed little or no interest in a common fund, questioning its need and usefulness. But developing countries kept up the pressure and negotiations began in 1977. These negotiations led to formal "Articles of Agreement for the Common Fund" in June 1980. The United States signed the articles in 1980. Since then, ratifications have steadily increased, as the UNCTAD Secretariat pushed for entry into force. At the same time, however, high-level interest in major industrial countries has faded, as evidenced by Summit communiques which at first urged ratification, but at London simply stated "some of us also wish to activate the common fund for commodities."

Commodity agreements

Currently there are only three agreements which have buffer stocks and which are thereby eligible to associate with the Common Fund, if it enters into force. These are international commodity agreements for cocoa, natural rubber, and tin. (The coffee agreement, the wheat agreement, and the new sugar agreement do not qualify since they have no internationally controlled stocks.) All three of the potentially eligible agreements would require significant modification to meet requirements for association with the Common Fund. Although the agreements have provisions to enable them to associate with the Fund, none have started the process.

Options

1) Ratify

US ratification would be well received by the Group of 77 and some of our OECD allies. It would eliminate the United States as an obstacle to entry into force, and thereby to LDC access to resources pledged to the Second Window by other countries. The cost is not large, $74 million, $25 million paid in. But it would require the United States to abandon its present position that there first be commodity agreements able to associate with the Fund. There are no clear economic benefits to the United States other than small potential savings for our membership in the rubber agreement if it associates (we are not members of either the cocoa or tin agreement). And the Fund might foster new commodity agreements which this Administration dislikes and would bring into operation another concessional aid institution (the Second Window). Moreover, in ratifying the Common Fund, the United States would accept a voting structure, bad in itself, and inimical to our interests in other financial institutions.

2) Reject ratification

Would subject us to considerable political heat, because the United States has abandoned a principal prop of the north-south dialogue. The Fund could come into being without the United States, providing a propaganda windfall for the Soviet Union which could claim credit. However, that would avoid U.S. cooperation in bringing into force an institution which goes against U.S. commodity policy and against U.S. policy on additional concessional finance. Also, it would avoid encouraging the belief that given enough time and pressure the United States is prepared to accede to questionable economic ventures.

3) Don't change present position

It is sensible to insist that the Common Fund have something to finance before agreeing to it. It leaves the door open to eventual ratification. Other countries would continue to pressure us to ratify. The Common Fund is unpalatable in principle and of little or no use in practice and it is time to remove it from our agenda by announcing we will not ratify.